

# ***Los Angeles News Service v. Reuters:* Damages for Extraterritorial Copyright Exploitation**

By JONATHAN PENKOWER\*

IN 1992, THE acquittals of four police officers in the Rodney King beating trial led to widespread rioting and looting in Los Angeles.<sup>1</sup> Rodney King, an African-American motorist, was beaten by white Los Angeles Police Department officers after he led the officers on a high-speed chase and then allegedly resisted arrest.<sup>2</sup> A videotape of the incident led to the trial of the accused four officers.<sup>3</sup> After a three-month trial and seven days of deliberation, the jury acquitted the officers, and the city of Los Angeles reacted with violence.<sup>4</sup>

In the midst of the chaos, rioters pulled a Caucasian truck driver, Reginald Denny, from his vehicle and severely beat him.<sup>5</sup> The beating was captured on videotape and broadcast around the world as one of the most startling, infamous images of the riots.<sup>6</sup> The unauthorized international broadcast of this footage led to a copyright infringement suit and nearly ten years of litigation. The suit has spawned four published opinions that have attempted to clarify the territorial limitations of the United States Copyright Act.<sup>7</sup>

The Ninth Circuit's recent decision in *Los Angeles News Service v. Reuters Television International, Ltd.*<sup>8</sup> ("*Reuters IV*") highlights the

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\* Class of 2005. The author would like to thank his parents, Alan and Lili Penkower, for their constant love, support, and encouragement.

1. *How the Riots Developed*, L.A. TIMES, May 13, 1992, at T1.

2. JOE GARNER, *WE INTERRUPT THIS BROADCAST* 122 (3d ed. 2002).

3. *Id.*

4. *Id.* at 122-23.

5. *How the Riots Developed*, *supra* note 1, at T1.

6. Amanda Bronstad, *Appeal Rejected, Tur Gets Nothing*, L.A. BUS. J., Sept. 29, 2003, at 21.

7. *L.A. News Serv. v. Reuters Television Int'l, Ltd.*, 942 F. Supp. 1265 (C.D. Cal. 1996) [hereinafter *Reuters I*]; *L.A. News Serv. v. Reuters Television Int'l, Ltd.*, 942 F. Supp. 1275 (C.D. Cal. 1996) [hereinafter *Reuters II*]; *L.A. News Serv. v. Reuters Television Int'l, Ltd.*, 149 F.3d 987 (9th Cir. 1998) [hereinafter *Reuters III*]; *L.A. News Serv. v. Reuters Television Int'l, Ltd.*, 340 F.3d 926 (9th Cir. 2003) [hereinafter *Reuters IV*].

8. 340 F.3d 926.

problems involved in interpreting the rights and remedies of a party injured by the unauthorized exploitation of the party's works outside the territorial boundaries of the United States. The Los Angeles News Service ("LANS"), owner of the Reginald Denny beating footage ("footage"), sued Reuters Television International Ltd. ("Reuters") for copyright infringement arising from Reuters's unauthorized broadcast of the footage to its international subscribers.<sup>9</sup> After the case bounced back and forth between the United States District Court for the Central District of California and the Court of Appeals for the Ninth Circuit, the Ninth Circuit was asked to decide whether a news organization may recover actual damages for infringement of its copyright rights based on acts that occurred mostly outside of the United States.<sup>10</sup>

Part I of this Note discusses the relevant background of copyright law and the cases leading up to the *Reuters IV* decision. Part II discusses the procedural history of the case, culminating in *Reuters IV*. Part III examines the majority's rationale and analysis in essentially reversing the previous Ninth Circuit decision, *Los Angeles News Service v. Reuters Television International, Ltd.*<sup>11</sup> ("*Reuters III*"). Part III concludes that the Ninth Circuit erred by denying LANS the right to prove its actual damages, which are provided for by the Copyright Act. Part III also examines the negative consequences of the Ninth Circuit's decision in *Reuters IV* from a public policy standpoint. By denying LANS the right to prove its actual damages, the Ninth Circuit has set a precedent that allows copyright infringers to escape liability.

## I. Background

### A. The Reginald Denny Video Footage

By the time the widespread looting, arson, and beatings of the Los Angeles riots of 1992 had ended, fifty-two people had died and property damage exceeded \$800 million.<sup>12</sup> The events were considered to be among the worst civil disturbances in American history.<sup>13</sup>

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9. *Reuters I*, 942 F. Supp. at 1266.

10. *Reuters IV*, 340 F.3d at 927; see also 17 U.S.C. § 504 (2000).

11. 149 F.3d 987.

12. John Stanley, *The King Riots: A Year Later*, S.F. CHRON., Apr. 25, 1993, The Pink Section (Datebook), at 47.

13. *Id.*

In the midst of the melee, Reginald Denny's truck pulled up to an intersection in Los Angeles where the violence had first erupted.<sup>14</sup> One rioter opened Denny's truck door and pulled him from his truck.<sup>15</sup> At least five men punched, kicked, and robbed Denny.<sup>16</sup> One attacker bashed Denny's skull with a fire extinguisher from the truck.<sup>17</sup> LANS, an independent news gathering organization, was flying a helicopter overhead to capture the events, and broadcast the footage live through a local Los Angeles television network.<sup>18</sup> Neighborhood residents, some of whom had watched the beating live on their televisions at home, eventually rescued Denny.<sup>19</sup> After undergoing three hours of emergency brain surgery, Denny made a miraculous recovery.<sup>20</sup>

Due to the graphic nature of the scene, and the fact that it had been broadcast live over a local television station, there was an immediate demand for licensed copies of the video footage.<sup>21</sup> The National Broadcasting Company ("NBC") also had a helicopter shooting aerial footage of the riots, but LANS's tape was superior because it started earlier and had better pictures of Denny.<sup>22</sup> Within hours of the incident, LANS, while retaining copyrights to the footage, granted limited licenses to NBC and the American Broadcasting Company ("ABC") to use it in their news programs.<sup>23</sup> LANS granted an additional license to NBC, allowing the footage to be broadcast on *The Today Show*.<sup>24</sup> NBC, however, went beyond the terms of the license and transmitted *The Today Show* broadcast to Visnews International Limited ("Visnews"), a joint venture among NBC, Reuters, and the British Broadcasting Company ("BBC").<sup>25</sup> Visnews made an unauthorized copy of the beating footage and transmitted it to its subscribers in Europe and Africa.<sup>26</sup> It also transmitted the footage to the New York office of the European Broadcast Union ("EBU"), a joint venture of Visnews and Reuters.<sup>27</sup>

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14. Laurie Becklund & Stephanie Chavez, *Beaten Driver a Searing Image of Mob Cruelty*, L.A. TIMES, May 1, 1992, at A1.

15. *Id.*

16. *Id.*

17. *Id.*

18. *Reuters II*, 942 F. Supp. 1275, 1277 (C.D. Cal. 1996).

19. See Becklund & Chavez, *supra* note 14, at A1.

20. *Id.*

21. *Reuters II*, 942 F. Supp. at 1277.

22. *Id.* at 1278.

23. *Id.*

24. *Id.*

25. *Id.* at 1279.

26. *Reuters I*, 942 F. Supp. 1265, 1267 (C.D. Cal. 1996).

27. *Reuters II*, 942 F. Supp. at 1279.

The EBU made another unauthorized copy and transmitted it to Reuters in London, who then distributed it to its subscribers all over the world.<sup>28</sup> At no time did LANS authorize Visnews or Reuters to obtain the footage from NBC or to use the footage in any way.<sup>29</sup>

## **B. The Protection of News Footage Under United States Copyright Law**

The United States Constitution provides that Congress shall have the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”<sup>30</sup> The part of this clause providing protection to the writings of authors is generally referred to as the “Copyright Clause” of the Constitution.<sup>31</sup> In interpreting the Copyright Clause, the United States Supreme Court has stated: “[T]o encourage people to devote themselves to intellectual and artistic creation, Congress may guarantee to authors and inventors a reward in the form of control over the sale or commercial use of copies of their works.”<sup>32</sup> The Court has made clear that the most immediate effect of copyright law is to secure a fair return for an author’s creative labor.<sup>33</sup> Pursuant to the Copyright Clause, Congress first enacted a copyright statute in 1790.<sup>34</sup> Major revisions followed in 1909 and 1976.<sup>35</sup>

Title 17 of the United States Code<sup>36</sup> (“Copyright Act” or “Act”), which codifies copyright law, protects original works of authorship, including literary, dramatic, musical, artistic, and certain other intellectual works.<sup>37</sup> The Copyright Act also protects motion pictures and other audiovisual works.<sup>38</sup> Motion pictures are defined as “audiovisual works consisting of a series of related images which, when shown in succession, impart an impression of motion, together with accompanying sounds.”<sup>39</sup> Thus, recorded video footage, such as that shot by

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28. *Reuters I*, 942 F. Supp. at 1267.

29. *Reuters II*, 942 F. Supp. at 1279.

30. U.S. CONST. art. I, § 8, cl. 8.

31. *See* Goldstein v. California, 412 U.S. 546, 555 (1973).

32. *Id.*

33. *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975).

34. MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT, OVERVIEW 1 (2003).

35. *Id.*

36. 17 U.S.C. §§ 101–1332 (2000).

37. *Id.* § 102(a).

38. *Id.* § 102(a)(6).

39. *Id.* § 101.

LANs of the Reginald Denny beating, qualifies as copyrightable subject matter under the category of motion pictures.<sup>40</sup>

### C. Remedies Available for Copyright Infringement

Section 106 of the Copyright Act provides the owner of a copyright with the exclusive right to reproduce and distribute copies of the copyrighted work.<sup>41</sup> Anyone who violates this right, or any of the other exclusive rights of the copyright owner provided by sections 106 through 122 of the Act, is an infringer of the copyright.<sup>42</sup> Section 504 of the Act sets out the remedies available for copyright infringement and provides that a copyright owner is entitled to recover actual damages as well as any profits attributable to the infringement.<sup>43</sup> Though not defined in the Copyright Act itself, "actual damages" have elsewhere been defined as "[a]n amount awarded to a complainant to compensate for a proven injury or loss."<sup>44</sup>

In order to establish the infringer's profits, the copyright owner bears the burden of presenting proof of the infringer's revenue.<sup>45</sup> The infringer may then prove his deductible expenses and any profit that is attributable to factors other than the copyrighted work.<sup>46</sup> In lieu of actual damages and profits, the copyright owner may elect to receive statutory damages at any time prior to the final judgment in the action.<sup>47</sup> Statutory damages are awarded by the court in an amount the court deems just to compensate for the infringements and range from \$750 to \$30,000 for each work copied without permission.<sup>48</sup> If the infringement is done willfully, the court has the discretion to award damages of up to \$150,000.<sup>49</sup>

Although the Copyright Act provides that the copyright owner is entitled to recover actual damages suffered by him as a result of the

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40. Besides being of a copyrightable subject matter, in order for an original work of authorship to be entitled to copyright protection, it also must be "fixed in any tangible medium of expression, now known or later developed, from which [it] can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." *Id.* § 102(a).

41. *Id.* § 106.

42. *Id.* § 501(a).

43. *Id.* § 504(b).

44. BLACK'S LAW DICTIONARY 394 (7th ed. 1999).

45. 17 U.S.C. § 504(b).

46. *Id.*

47. *Id.* § 504(c).

48. *See id.*

49. *Id.*

infringement,<sup>50</sup> neither the Act nor the accompanying legislative reports attempt to explain the nature of such actual damages.<sup>51</sup> Therefore, common law must be examined in order to understand this concept.<sup>52</sup> "The primary measure of recovery of actual damages is based upon the extent to which the market value of the copyrighted work, at the time of the infringement, has been injured or destroyed by such infringement."<sup>53</sup> One way to demonstrate injury to the market value of a copyrighted work is to prove lost profits, i.e., the revenue that would have accrued to the plaintiff but for the infringement.<sup>54</sup> "The plaintiff has the burden 'of establishing with reasonable probability the existence of a causal connection between the infringement of the defendant and some loss of anticipated revenue.'"<sup>55</sup> In cases where the infringement produces no financial gain for the infringer, and where losses to the copyright owner are difficult to quantify, some courts have fashioned a remedy by imputing a license fee to the infringer.<sup>56</sup> This "value of use" method "amounts to a determination of what a willing buyer would have been reasonably required to pay to a willing seller for plaintiffs' work."<sup>57</sup>

#### D. The Territorial Reach of the Copyright Act

The United States Supreme Court has instructed that courts should assume legislation is not meant to apply extraterritorially unless there is a clear congressional indication otherwise.<sup>58</sup> The primary purpose of this presumption is to preserve international comity by protecting "against unintended clashes between our laws and those of other nations which could result in international discord."<sup>59</sup>

In 1909, Justice Holmes, writing for the United States Supreme Court in *American Banana Co. v. United Fruit Co.*,<sup>60</sup> stated that if another jurisdiction "should happen to lay hold of the actor, to treat him

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50. *Id.* § 504(b).

51. NIMMER & NIMMER, *supra* note 34, § 14.02.

52. *See, e.g.,* Deltak, Inc. v. Advanced Sys., Inc., 767 F.2d 357, 361 (7th Cir. 1985).

53. NIMMER & NIMMER, *supra* note 34, § 14.02[A].

54. *Id.*

55. *Id.* (quoting Key West Hand Print Fabrics, Inc. v. Serbin, Inc., 269 F. Supp. 605, 613 (S.D. Fla. 1965)).

56. *See Deltak*, 767 F.2d at 360-61.

57. Sid & Marty Krofft Television Prods., Inc. v. McDonald's Corp., 562 F.2d 1157, 1174 (9th Cir. 1977).

58. Equal Employment Opportunity Comm'n v. Arabian Am. Oil Co., 499 U.S. 244, 248 (1991).

59. *Id.*

60. 213 U.S. 347 (1909).

according to its own notions rather than those of the place where he did the acts, not only would be unjust, but would be an interference with the authority of another sovereign, contrary to the comity of nations.”<sup>61</sup> Holmes further stated that “the general and almost universal rule is that the character of an act as lawful or unlawful must be determined wholly by the law of the country where the act is done.”<sup>62</sup> In *American Banana*, the Court refused to award damages under the Sherman Antitrust Act for defendant’s acts that occurred outside of the United States, which plaintiff alleged had deprived it of the use of its banana plantation and a railway.<sup>63</sup>

The reasoning in *American Banana* is applicable to other federal laws, including the presumption against extraterritoriality in copyright law. The Copyright Act does not explicitly indicate that Congress intended the Act to have application outside of the United States.<sup>64</sup> Therefore, under *American Banana*, the Act only protects against copyright infringement occurring within the boundaries of the United States, and acts normally prohibited by the Copyright Act that occurred outside of the United States would not be subject to the Act.<sup>65</sup> Since the Act does not have extraterritorial application, no cause of action exists for exploitation that occurs outside of the United States under the copyright law.<sup>66</sup>

# **1. *Subafilms, Ltd. v. MGM-Pathe Communications Co. and the Presumption Against the Extraterritorial Reach of the Copyright Act***

The Ninth Circuit decision in *Subafilms, Ltd. v. MGM-Pathe Communications Co.*<sup>67</sup> established the presumption against the extraterritorial enforcement of the Copyright Act. *Subafilms* held that the mere authorization by a domestic party of acts that occur outside of the United States cannot support a claim for infringement under the Copyright Act, even though those same acts would constitute infringement had they occurred in the United States.<sup>68</sup> The Ninth Circuit in

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61. *Id.* at 356.

62. *Id.*

63. *Id.* at 355–57.

64. See 17 U.S.C. §§ 101–1332 (2000).

65. See NIMMER & NIMMER, *supra* note 34, § 14.05.

66. Courts use the term “extraterritorial infringement,” but this is actually an oxymoron, because based on the Copyright Act, acts committed extraterritorially are not considered infringement. See, e.g., *Reuters III*, 149 F.3d 987, 990 (9th Cir. 1998).

67. 24 F.3d 1088 (9th Cir. 1994).

68. *Id.* at 1099.

*Subafilms* refused to hold liable the domestic distributor of motion picture video tapes who, without the permission of the copyright owner, authorized a third party to distribute the picture internationally.<sup>69</sup>

In *Subafilms*, the plaintiffs owned the copyright to the 1967 Beatles animated motion picture "Yellow Submarine" and had an agreement with the United Artists Corporation ("UA") to finance and distribute the film.<sup>70</sup> MGM-Pathe became the successor to the UA in the 1980s and licensed the distribution of the film both domestically and abroad.<sup>71</sup> Plaintiffs brought suit, contending that the videotape distribution of the picture was not part of the distribution agreement and constituted copyright infringement.<sup>72</sup> Plaintiffs were awarded a \$2.2 million verdict, which was affirmed by a Ninth Circuit panel decision.<sup>73</sup> However, on rehearing en banc, the Ninth Circuit vacated the panel decision, concluding that the Copyright Act did not create an independent form of liability for the illegitimate authorization of the overseas reproduction or distribution of copyrighted materials.<sup>74</sup> The court's reasoning in *Subafilms* was based on the presumption against the extraterritorial application of United States law.<sup>75</sup> The court pointed to a Supreme Court ruling that stated: "It is a long-standing principle of American law 'that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.'"<sup>76</sup>

The *Subafilms* case is similar to *Reuters* in that both cases involve acts that would be considered copyright infringement if done within the boundaries of the United States. However, in contrast to *Subafilms*, where the acts in question were committed exclusively overseas, the exploitation of the news footage in *Reuters* was accomplished by predicate acts of domestic infringement. This situation was addressed long before *Subafilms*, in *Sheldon v. Metro-Goldwyn Pictures Corp.*,<sup>77</sup> discussed below.

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69. *See id.*

70. *Id.* at 1089.

71. *Id.*

72. *Id.*

73. *Id.* at 1089-90.

74. *See id.*

75. *Id.* at 1095.

76. *Id.* (quoting Equal Employment Opportunity Comm'n v. Arabian Am. Oil Co., 499 U.S. 244, 248 (1991) (quoting Foley Bros., Inc. v. Filardo, 336 U.S. 281, 285 (1949))).

77. 106 F.2d 45 (2d Cir. 1939).



## 2. *Sheldon* and the Concept of a Constructive Trust

While the Copyright Act does not provide any protection against acts that occur completely outside of the United States, some courts have allowed recovery for extraterritorial damages that result from a predicate act of domestic infringement. In the 1939 Second Circuit case, *Sheldon v. Metro-Goldwyn Pictures Corp.*, the court held that profits from overseas exploitation could be recovered on the theory that the infringer holds them in a constructive trust for the copyright owner.<sup>78</sup> A constructive trust is generally defined as “[a] trust imposed by a court on equitable grounds against one who has obtained property by wrongdoing, thereby preventing the wrongful holder from being unjustly enriched.”<sup>79</sup>

In *Sheldon*, the copyright owners of a play brought an infringement action against a motion picture producer and distributor for the unauthorized exhibition, reproduction, and distribution of the play as a motion picture.<sup>80</sup> A negative of the film was printed in the United States and then shipped abroad, where prints of the motion picture were made and exhibited.<sup>81</sup> The *Sheldon* court reasoned that if a defendant has made an unauthorized reproduction of a copyrighted work, the copyright owner acquires an equitable interest in the infringing work, “which attache[s] to any profits from [its] exploitation, whether in the form of money remitted to the United States, or of increase in the value of shares of foreign companies held by the defendant[ ].”<sup>82</sup> The court further stated: “[A]s soon as any of the profits so realized took the form of property whose situs was in the United States, our law seized upon them and impressed them with a constructive trust . . . .”<sup>83</sup>

The concept of a constructive trust overcoming the territorial limits of copyright protection was established in *Sheldon* without taking into account any legal claim under the copyright laws of the nation or nations where the overseas acts took place.<sup>84</sup> Judge Learned Hand, writing for the court, stated: “We need not decide whether the law of those countries where the negatives were exploited, recognized the plaintiffs’ equitable interest.”<sup>85</sup> Thus, the *Sheldon* court appreciated

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78. *See id.* at 52.

79. BLACK’S LAW DICTIONARY 1515 (7th ed. 1999).

80. *Sheldon*, 106 F.2d at 48–49.

81. *Id.* at 52.

82. *Id.*

83. *Id.*

84. *Id.*

85. *Id.*

that the plaintiff should in fairness be entitled to all of the defendant's extraterritorial profits stemming from the domestic infringement of the work.<sup>86</sup>

## II. The Case: *Reuters IV*

### A. The Parties

Plaintiff LANS is "an independent news organization which produces video and audio tape recordings of newsworthy events and licenses them for profit."<sup>87</sup> LANS is solely owned and operated by freelance reporters Bob and Marika Tur as a two-person crew.<sup>88</sup>

Defendant Reuters is a news and information supplier to subscribers who pay an annual fee for this service.<sup>89</sup> Reuters is the world's largest international multimedia news agency, serving 130 countries and employing 2,400 editorial staff, journalists, photographers, and camera operators.<sup>90</sup> Reuters is listed on both the London Stock Exchange and the NASDAQ Stock Exchange, and its 2002 gross revenue was £3.6 billion (approximately \$5.4 billion).<sup>91</sup>

During the 1992 Los Angeles riots, the Turs, from their helicopter, caught on film four persons being beaten.<sup>92</sup> Two of the recordings, entitled "The Beating of Reginald Denny" and "Beating of Man in White Panel Truck," were licensed to NBC, which aired the footage on *The Today Show*.<sup>93</sup> NBC then transmitted the broadcast to its joint venture partner Reuters without authorization, and Reuters's subsidiary further copied the beating footage and transmitted it to subscribers in Europe and Africa.<sup>94</sup>

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86. *See id.*

87. *Reuters IV*, 340 F.3d 926, 927 (9th Cir. 2003).

88. *Reuters I*, 942 F. Supp. 1265, 1267 (C.D. Cal. 1996); *Reuters II*, 942 F. Supp. 1275, 1277 (C.D. Cal. 1996).

89. *Reuters II*, 942 F. Supp. at 1277. Also named as defendants were various subsidiaries of Reuters. *See id.* For simplicity, the defendants will be referred to collectively as "Reuters" in this note.

90. REUTERS, KEY FACTS (2004), at <http://about.reuters.com/aboutus/overview/facts/index.asp> (last accessed Mar. 1, 2004).

91. *Id.*

92. *Reuters I*, 942 F. Supp. at 1267.

93. *Id.*

94. *Id.*

## B. Procedural History

### 1. Defendant's Motion for Summary Judgment in the District Court: *Los Angeles News Service v. Reuters Television International Ltd.* ("Reuters I")

LANS sued Reuters and Visnews for copyright infringement in federal court.<sup>95</sup> The United States district court in *Reuters I* granted defendant Reuters partial summary judgment, holding that no liability could arise under the Copyright Act for infringement that occurred outside of the United States.<sup>96</sup> However, the district court also held that the act of copying the work by Visnews in New York was a domestic act of infringement.<sup>97</sup>

The district court additionally concluded that LANS had failed to prove any domestic actual damages, and because damages arising extraterritorially were unavailable under the Copyright Act, LANS was limited to statutory damages.<sup>98</sup> The court found that LANS could not establish with reasonable probability the existence of a causal connection between the domestic infringement and a loss of revenue in the form of license fees.<sup>99</sup>

### 2. Trial on Statutory Damages in the District Court: *Los Angeles News Service v. Reuters Television International, Ltd.* ("Reuters II")

In *Reuters II*, the district court found that the defendant Reuters made one copy of each videotape and contributed to EBU making one copy of each tape, totaling four separate acts of infringement.<sup>100</sup> The court then considered the issue of statutory damages and awarded LANS a total recovery of \$60,000: \$40,000 for the two infringements of the Reginald Denny beating footage and \$20,000 for the two infringements of the tape called "Beating of Man in White Panel Truck."<sup>101</sup>

### 3. First Appeal to the Ninth Circuit: *Reuters III*

LANS appealed the district court's partial summary judgment on actual damages in *Reuters I*, and in *Reuters III* the Ninth Circuit re-

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95. *Reuters III*, 149 F.3d 987, 990 (9th Cir. 1998).

96. *Reuters I*, 942 F. Supp. at 1266.

97. *Reuters IV*, 340 F.3d 926, 927 (9th Cir. 2003).

98. *Id.*

99. *Reuters I*, 942 F. Supp. at 1274.

100. *Reuters III*, 149 F.3d at 990.

101. *Reuters II*, 942 F. Supp. 1275, 1283-84 (C.D. Cal. 1996).

versed the district court's ruling that no actual damages could be proven.<sup>102</sup> The Ninth Circuit in *Reuters III* concluded that although the district court correctly held that the Copyright Act does not apply extraterritorially, an exception to this rule may apply where an act of infringement is completed entirely within the United States and the infringing act enabled further exploitation abroad.<sup>103</sup> The Ninth Circuit relied on *Sheldon* and concluded that although "the extraterritorial damages resulted from Reuters's overseas dissemination of the works received by satellite transmissions from Visnews and EBU, those transmissions were made possible by the infringing acts of copying in New York."<sup>104</sup> The Ninth Circuit therefore reversed the district court's ruling in *Reuters I* that barred the claim for extraterritorial damages and remanded for a trial on actual damages.<sup>105</sup> The United States Supreme Court denied defendant Reuters's petition for certiorari.<sup>106</sup>

#### 4. *Reuters III* on Remand to the District Court

On remand, the district court reconsidered LANS's damages, and Reuters moved for summary adjudication on the claim for actual damages.<sup>107</sup> Reuters asserted that the *Reuters III* decision permitted LANS to recover only defendant's profits attributable to the extraterritorial infringement, not actual damages for injuries the overseas infringement caused LANS in the form of potentially lost license fees.<sup>108</sup> The district court agreed with Reuters, holding that "[t]o permit [LANS] to recover damages other than Defendant['s] profits or unjust enrichment . . . would . . . effectively permit [LANS] to recover damages for extraterritorial acts of infringement."<sup>109</sup> Having determined that LANS could recover only defendant's profits, and that the defendant had reaped no profits from the infringement, the district court stated that LANS could either take the \$60,000 in statutory damages or \$0 from defendant's unjust enrichment.<sup>110</sup> LANS rejected the statutory damages award and again appealed to the Ninth Circuit.<sup>111</sup>

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102. *Reuters IV*, 340 F.3d at 928.

103. *Id.*

104. *Reuters III*, 149 F.3d at 992.

105. *Id.* at 997.

106. *Reuters v. LANS*, 525 U.S. 1141 (1999).

107. *Reuters IV*, 340 F.3d at 928.

108. *Id.*

109. *Id.* (quoting from the district court's unpublished ruling).

110. *See id.*

111. *See id.*

## C. Second Appeal to the Ninth Circuit: *Reuters IV*

### 1. The Parties' Contentions

LANs claimed in its second appeal to the Ninth Circuit that the district court erred on remand from *Reuters III* by not allowing recovery for actual damages.<sup>112</sup> LANs asserted that when the *Reuters III* court used the term "damages," it meant "actual damages," as opposed to disgorged profits.<sup>113</sup> LANs emphasized that the Copyright Act uses the terms "profits" and "actual damages" separately and provides that an infringer may recover both.<sup>114</sup> LANs did not challenge the court's conclusion that LANs had failed to show that Reuters had earned any profits from the overseas exploitation.<sup>115</sup>

Reuters simply argued that the district court read *Reuters III* correctly in permitting LANs to only recover profits and not actual damages. They maintained that the *Sheldon* rule adopted by the court in *Reuters III* was limited to the recovery of profits.<sup>116</sup>

### 2. The Majority Rationale

Two of the judges on the three-judge panel in *Reuters IV* agreed with the defendant that the district court was correct in denying LANs the right to recover actual damages from the overseas exploitation of the works.<sup>117</sup> The court concluded that the Copyright Act does not provide LANs the right to recover actual damages resulting from Reuters's infringement.<sup>118</sup> The court stated that the language of *Reuters III* must be interpreted in the context of *Sheldon*, which only allowed recovery of profits from exploitation abroad arising from domestic acts of infringement.<sup>119</sup> Therefore, *Reuters III*'s application of the *Sheldon* constructive trust exception must also be limited to profits.<sup>120</sup> The majority highlighted that *Reuters III* allowed "only a narrow exception for the recovery of the infringer's profits to *Subafilms*'s general rule against extraterritorial application."<sup>121</sup>

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112. *Id.* at 929.

113. *Id.*

114. *See id.*

115. *See id.*

116. *See id.*

117. *See id.* at 931-32.

118. *Id.*

119. *See id.* at 929.

120. *See id.*

121. *Id.*

### 3. The Dissenting Opinion

Judge Silverman dissented, claiming that *Reuters III* was correct in allowing LANS to prove actual damages.<sup>122</sup> He accused the majority of deciding this exact issue in the opposite way.<sup>123</sup> Judge Silverman stated: "The majority now holds that when we [the Ninth Circuit] said 'actual damages,' we didn't mean actual damages, but only whatever profits the infringer might have realized."<sup>124</sup> He explained that the "new holding is not only at odds with our previous holding, but it fails to take account of the fact that the Copyright Act itself specifically uses the terms 'actual damages' and 'profits' separately and distinctly."<sup>125</sup>

#### D. Subsequent History

LANS's petitions for a rehearing and a rehearing en banc were both denied by the Ninth Circuit.<sup>126</sup> LANS subsequently filed a petition for certiorari to the United States Supreme Court, which is pending currently.<sup>127</sup>

### III. Criticism of the *Reuters IV* Decision

#### A. Actual Damages Versus Profits as a Remedy for Extraterritorial Harm

The district court should have allowed LANS to prove its actual damages in accordance with the *Reuters III* decision. The Ninth Circuit in *Reuters III* specifically held that "LANS is entitled to recover damages flowing from exploitation abroad of the domestic acts of infringement committed by [the] defendant[ ]."<sup>128</sup> If the Ninth Circuit intended that LANS could only recover the unjust enrichment of Reuters, it would have used the term "profits" instead of "damages." There is nothing in the *Reuters III* opinion that indicates that the court meant "profits" when it consistently used the word "damages."

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122. See *id.* at 932 (Silverman, J., dissenting).

123. See *id.* (Silverman, J., dissenting).

124. *Id.* (Silverman, J., dissenting).

125. *Id.* (Silverman, J., dissenting).

126. See *id.* at 926.

127. *Id.*, petition for cert. filed, 72 U.S.L.W. 3452 (U.S. Dec. 31, 2003) (No. 03-965).

128. *Reuters III*, 149 F.3d 987, 992 (9th Cir. 1998).

## 1. The Text of the Copyright Clause Supports the Recovery of Actual Damages

Section 504 of the Copyright Act states, in relevant part, that “[t]he copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages.”<sup>129</sup> The language of the statute makes it clear that Congress intended to provide actual damages and profits as two separate (but not duplicative) remedies for injured copyright owners. The statute does not say “actual damages including any profits of the infringer,” or “actual damages which shall be defined as any profits of the infringer.”

The House Committee Report to the 1976 Copyright Act further clarified Congress’s intention to distinguish damages from profits.<sup>130</sup> Section 504(b) of the Copyright Act “recognizes the different purposes served by awards of damages and profits. Damages are awarded to compensate the copyright owner for losses from the infringement, and profits are awarded to prevent the infringer from unfairly benefiting from a wrongful act.”<sup>131</sup> Unfortunately, neither the Copyright Act nor the Committee Reports defines the term “actual damages.” Moreover, neither the Copyright Act, nor *Reuters III*, nor any other authority, limits the calculation of actual damages to only the infringer’s disgorged profits.<sup>132</sup>

Differentiating profits from damages is not unique to the Copyright Act. In other federal statutes, Congress has articulated the difference between actual damages and profits. For instance, the Lanham Act,<sup>133</sup> which protects trademarks, provides that “[w]hen a violation of any right of the registrant of a mark registered in the Patent and Trademark Office . . . shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled . . . to recover (1) defendant’s profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.”<sup>134</sup>

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129. 17 U.S.C. § 504(b) (2000).

130. See H.R. REP. NO. 94-1476 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659.

131. H.R. REP. NO. 94-1476, at 161.

132. See *Reuters IV*, 340 F.3d 926, 932–33 (9th Cir. 2003) (Silverman, J., dissenting).

133. See 15 U.S.C. §§ 1051–1072, 1091–1096, 1111–1129.

134. *Id.* § 1117(a).

## 2. Actual Damages Are Not Construed as Profits by the Courts in Other Copyright Infringement Contexts

Federal courts have frequently acknowledged that profits and damages do not refer to the same thing in the context of copyright infringement occurring within the United States. In an Eighth Circuit case, a telephone company whose copyright was infringed by a city directory publisher's use of its listings was entitled to be awarded both "actual damages," measured by the loss of the licensing fee the phone company typically charged for the use of its directories, and "profits," from which the actual damages would be reduced.<sup>135</sup> This case illustrates the intention of the court to distinguish between damages and profits. Furthermore, the United States Supreme Court has explicitly differentiated profits from damages, stating:

The Copyright Act provides the owner of a copyright with a potent arsenal of remedies against an infringer of his work, including an injunction to restrain the infringer from violating his rights, the impoundment and destruction of all reproductions of his work made in violation of his rights, a recovery of his actual damages and any additional profits realized by the infringer or a recovery of statutory damages, and attorney's fees.<sup>136</sup>

Nothing in *Reuters III* suggested that the court meant "profits" when it consistently used the word "damages." "Damage" is commonly defined as something lost by a plaintiff, and "damages" are compensation recoverable by one "who has suffered loss, detriment, or injury, whether to his person, property, or rights."<sup>137</sup> "Profit," on the other hand, is understood to be something gained by a defendant or the "accession of good, valuable results, useful consequences, avail, gain, as an office of profit, excess of returns over expenditures or excess of income over expenditure."<sup>138</sup> The terms "damages" and "profits" are clearly not synonymous and identify two distinct concepts.

In *Reuters III*, the Ninth Circuit remanded for a trial on actual damages, but in *Reuters IV*, the same court essentially denied LANS the right to prove its damages. Furthermore, the United States Supreme Court had denied Reuters's petition for certiorari after the *Reuters III* decision, thereby not disapproving of the Ninth Circuit allowing LANS to prove actual damages.

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135. See *United Tel. Co. v. Johnson Publ'g Co.*, 671 F. Supp. 1514, 1524 (W.D. Mo. 1987), *aff'd*, 855 F.2d 604 (8th Cir. 1988).

136. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 433-34 (1984).

137. BLACK'S LAW DICTIONARY 351-52 (5th ed. 1979).

138. *Id.* at 1090.



## B. The Public Policy Against Copyright Infringement Requires That Actual Damages Be Recoverable

### 1. The Threat of Overseas Piracy

In today's global economy, intellectual property, along with the rest of international commerce, knows no borders. The United States exports more copyrighted material than any other country in the world.<sup>139</sup> Piracy of intellectual property has become a serious problem in modern commerce; it costs American industries \$50 billion per year.<sup>140</sup> According to the Motion Picture Association International, global piracy of motion pictures cost Hollywood \$3.5 billion in 2002.<sup>141</sup> In the first half of 2003, over thirteen million pirated films were seized in the Asia-Pacific region alone.<sup>142</sup> A report published by the International Federation of the Phonographic Industry ("IFPI") estimates that the illegal music market was worth \$4.6 billion globally in 2002.<sup>143</sup> The IFPI estimates that two out of every five compact discs or cassettes sold throughout the world are illegal.<sup>144</sup> The regions of Southeast Asia and Latin America have been identified as hotspots for illegal factory production of pirated music where no copyright royalties are paid.<sup>145</sup> Even closer to home, industry experts estimate that 60% of music compact discs sold in Mexico are pirated.<sup>146</sup>

Another area of concern is the business of global software piracy. The piracy rate of new software used globally reached 39% in 2002, with some individual countries reaching rates of over 90%.<sup>147</sup> The regional piracy rate in Eastern Europe in 2002 was 71%, and the piracy

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139. John Patrick Kelsh, Note, *Subafilms, Ltd. v. MGM-Pathe Communications Co., the Berne Convention, and the Extraterritorial Application of the Copyright Act*, 90 NW. U. L. REV. 1839, 1839 (1996).

140. *Id.*

141. Geoffrey A. Fowler, *Film Pirates Now Make Copies on Cheap, Mobile Burners; Like a "Thousand Cockroaches,"* WALL ST. J., Sept. 18, 2003, at B1.

142. *Id.*

143. INT'L FED'N OF THE PHONOGRAPHIC INDUS., COMMERCIAL PIRACY REPORT (2003), available at <http://www.ifpi.org/site-content/antipiracy/piracy2003-piacy-statistics.html> (last accessed Jan. 10, 2004).

144. *Id.*

145. *Id.*

146. Ricardo Sandoval & Sicardo Chavira, *Commercial Piracy a High-Rank Problem in Mexico*, MIAMI HERALD, Aug. 12, 2003, at <http://www.miami.com/mld/miamiherald/news/world/americas/6511734.htm> (last accessed Jan. 11, 2004).

147. BUS. SOFTWARE ALLIANCE, 8TH ANNUAL BSA GLOBAL SOFTWARE PIRACY STUDY: TRENDS IN SOFTWARE PIRACY 1994-20022 (2003), at [http://global.bsa.org/globalstudy/2003\\_GSPS.pdf](http://global.bsa.org/globalstudy/2003_GSPS.pdf) (last accessed Jan. 11, 2004). The piracy rate is the percentage of goods obtained without authorization. *Id.* at 12.

rate in Vietnam that year was a shocking 95%.<sup>148</sup> Although much lower by comparison, the piracy rate in the United States in 2002 was 23%, meaning that nearly one in four copies of software was obtained illegally.<sup>149</sup> Software pirates in Malaysia are already selling copies of the Microsoft Corporation's next version of its Windows operating system, which will not be released officially until 2005.<sup>150</sup>

The threat of overseas piracy has prompted the executive and legislative branches of the United States government to take a strong stance to protect the interests of American exporters of intellectual property.<sup>151</sup> Presidents George H. Bush and William Clinton encouraged trade strategies to force countries to provide American copyrighted material with greater levels of protection.<sup>152</sup> In 1988, Congress passed the Omnibus Trade and Competitiveness Act,<sup>153</sup> which called for special trade sanctions against countries that fail to protect American intellectual property.<sup>154</sup> In that same year, the United States joined the Berne Convention,<sup>155</sup> the major multilateral agreement governing international copyright relations.<sup>156</sup>

Although the executive and legislative branches have taken steps to protect American copyrights, the decision in *Reuters IV* appears to have hampered those efforts. The *Reuters III* court had given copyright owners a powerful remedy against international piracy by allowing the recovery of actual damages arising from unauthorized exploitation of copyrighted works overseas caused by a domestic act of infringement, recognizing today's digital, globally connected world. However, the abrupt change of position by the same court in *Reuters IV* permits knowledgeable infringers to escape full liability by exploiting this loophole in copyright protection. A hypothetical infringer could send unauthorized video footage abroad to its international customers and escape liability, so long as no act of infringement takes place on American soil.

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148. *Id.* at 2.

149. *Id.* at 4.

150. *Pirates Sell Longhorn Copies in Malaysia*, BOSTON HERALD, Dec. 2, 2003, at <http://business.bostonherald.com/technologyNews/technology.bg?articleid=106> (last accessed Jan. 11, 2004).

151. See Kelsh, *supra* note 141, at 1840–41.

152. *Id.*

153. Omnibus Trade and Competitiveness Act of 1988 § 1301, 102 Stat. 1107, 1164 (codified as amended at 19 U.S.C. § 2411 (2000)).

154. See *id.*

155. See S. REP. NO. 352, at 1 (1988).

156. *Id.* at 2.

## 2. The Need to Protect the News Industry

In today's world of giant international media conglomerates, many news stories and video footage are still licensed from smaller independent sources such as LANS.<sup>157</sup> The *Reuters IV* decision provides no incentive for an independent American news organization to engage in collecting footage for the benefit of its overseas customers, because any international organization could use the work overseas and escape liability under the Copyright Act.<sup>158</sup>

The unique nature of the news industry makes proof of actual profits difficult. A news provider may not necessarily gain profits from broadcasting a story to its subscribers, but if profits were earned, it would be difficult to determine which news segment actually produced the profits. Reuters most likely had "no profits or income directly allocable to its infringements because its subscribers pay annual subscription fees unrelated to their receipt or usage of any specific footage."<sup>159</sup>

Even though Reuters claimed to not have profited from the unauthorized copying and distribution, LANS has still lost the opportunity to receive licensing fees from international news broadcasters. When Reuters copied the riot footage and shipped it all over the world, it deprived LANS of the entire world market. LANS attempted to license its copyrighted riot footage in Europe by soliciting French, German, Spanish, British, and Scandinavian newspapers, but was unable to sell its videos and photos because the European newspapers were using still photos taken from the footage that Reuters sent to its subscribers.<sup>160</sup> These licensing fees could have been very lucrative for LANS because of the valuable content of the video footage.<sup>161</sup> The Reginald Denny beating has been labeled as one of the most important news images of the twentieth century, comparable to images of the Hindenburg, the assassination of President John F. Kennedy, and the Rodney

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157. See, e.g., *Reuters I*, 942 F. Supp. 1265 (C.D. Cal. 1996).

158. There may be separate copyright protection under laws of other countries for these works under the Berne Convention, but it may not be feasible to sue a defendant, who may not even be subject to personal jurisdiction in another country, in each individual country under each individual law where the work is exploited. Another alternative may be to sue under foreign law in the United States, but this may be dismissed in whole or part under the forum non conveniens doctrine if the United States judge does not want to interpret foreign laws and there is an alternative forum available. See *Creative Tech., Ltd. v. Aztech Sys. Private, Ltd.*, 61 F.3d 696, 701-03 (9th Cir. 1995).

159. See Brief for Appellant at 6, *Reuters IV*, 340 F.3d 926 (9th Cir. 2003) (No. 00-57215).

160. *Reuters I*, 942 F. Supp. at 1267.

161. See *Reuters II*, 942 F. Supp. 1275, 1281 (C.D. Cal. 1996).

King beating that led to the Los Angeles riots.<sup>162</sup> The LANS footage was so valuable that NBC initially licensed it from LANS, even though NBC had its own footage of the events.<sup>163</sup> In total, LANS had acquired upwards of \$250,000 from licensing the footage domestically.<sup>164</sup>

In *Reuters II*, Judge Wardlaw concluded that Bob and Marika Tur's creation of videotape footage "is of great public benefit and should be encouraged . . . . [T]he Turs must be allowed to profit from them, without the concern that expediency, exigent circumstances or the very nature of the fast-breaking news-gathering business will deprive them of potential profits from those works."<sup>165</sup> Obtaining live footage of extremely newsworthy events such as the beating of Reginald Denny is a difficult and expensive process. At the time of the Los Angeles riots, LANS's operating expenses included a \$1 million helicopter and helicopter operating costs of \$588 per hour, as well as video equipment and employee costs.<sup>166</sup> The ability to provide this type of news coverage to the public relies heavily on the sale of licenses. In 1992, LANS earned more than 50% of its income from selling licenses to live videotape material and stock video.<sup>167</sup> Thus, depriving LANS the opportunity to collect license fees will have a detrimental effect on its success as a business.

In *Reuters II*, the defendant was ordered to pay only \$60,000 in statutory damages for stealing this momentous footage, less than the award of attorneys fees levied against Reuters in *Reuters III*.<sup>168</sup> By denying recovery of actual damages to LANS, the Ninth Circuit's decision in *Reuters IV* provides no incentive for Reuters to pay a license fee for broadcasting news footage overseas. With the high cost of attorneys fees, it is plausible that in most situations the statutory damage award for copyright infringement will likely be less than the cost to litigate. The *Reuters IV* decision provides no incentive for international news organizations to expend the time and money necessary to create these works, since the works can easily be exploited overseas with minimal penalties.

LANS should be allowed the opportunity to prove its actual damages, even if it is a difficult task. The Second Circuit has stated that an

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162. See GARNER, *supra* note 2, at 2, 48, 122, 124.

163. See *Reuters II*, 942 F. Supp. at 1278.

164. See *id.* at 1281.

165. *Id.* at 1283.

166. *Id.* at 1281.

167. *Id.*

168. Reply Brief for Appellant at 23 n.8, *Reuters IV*, 340 F.3d 926 (9th Cir. 2003) (No. 00-57215).

award of actual damages in the copyright context "should be broadly construed to favor victims of infringement."<sup>169</sup> In a recent federal district court case, evidence concerning what a photographer would have charged to license a copyrighted photograph was deemed admissible in his suit for infringement.<sup>170</sup> The court found the estimated license fee relevant to actual damages, despite defendant's objection that the evidence was too speculative to be material to the question of actual damages.<sup>171</sup> Similarly, LANS should be allowed to present evidence of actual damages in the form of an estimate of the license fees that it could have earned for the Reginald Denny footage in order to be fully compensated for their loss.

## Conclusion

The Ninth Circuit in *Reuters IV* erred in refusing LANS the opportunity to prove and recover its actual damages from Reuters's infringement of the video footage. In *Reuters III*, the Ninth Circuit specifically held that LANS was entitled to recover actual damages for the infringement of its footage.<sup>172</sup> Nowhere in the court's opinion was there any reference to LANS being limited to a recovery of profits.<sup>173</sup> The Ninth Circuit's reversal of its position in *Reuters IV* gives infringers an easy avenue to profit from works that they do not own. This will have a devastating effect on the already serious problem of copyright infringement and piracy suffered by American companies.

Reuters committed a domestic act of copyright infringement by copying the video footage in New York, which directly led to the extra-territorial exploitation by spreading the tape to its international subscribers. Therefore, LANS should be able to recover the full scope of its damages arising from that domestic act of infringement. The United States Supreme Court should grant certiorari, reverse the Ninth Circuit decision in *Reuters IV*, allow LANS to recover actual damages, and set a precedent that does not allow infringers to escape liability by crossing the nation's borders.

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169. On *Davis v. Gap Inc.*, 246 F.3d 152, 164 (2d Cir. 2001).

170. *Fournier v. Erickson*, 242 F. Supp. 2d 318 (S.D.N.Y. 2003).

171. *Id.* at 337.

172. *Reuters III*, 149 F.3d 987, 992 (9th Cir. 1998).

173. *See id.*

